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Analysis

Moody's Global Infrastructure Finance

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NiSource Inc.

Merrillville, Indiana, United States

Company Profile

NiSource Inc. is a holding company with regulated natural gas and electric utility subsidiaries in nine states and an interstate gas pipeline system that runs from the Gulf Coast through the Midwest to New England. These subsidiaries operate under three reported segments: Gas Distribution (LDC), Transmission and Storage (Pipelines), and Electric Operations. The majority of NiSource's debt is issued through finance vehicles (rated Baa3 senior unsecured) that are guaranteed by the holding company.

Two of NiSource's utility subsidiaries are rated: Bay State Gas Company (Baa2 senior unsecured) and Northern Indiana Public Service Company (NIPSCO, Baa2 senior unsecured). Bay State, based in Westborough, Massachusetts, is a rate-regulated local gas distribution company (LDC) serving nearly 300,000 customers in Massachusetts. NIPSCO is a combination electric and gas utility which conducts NiSource's electric operations.

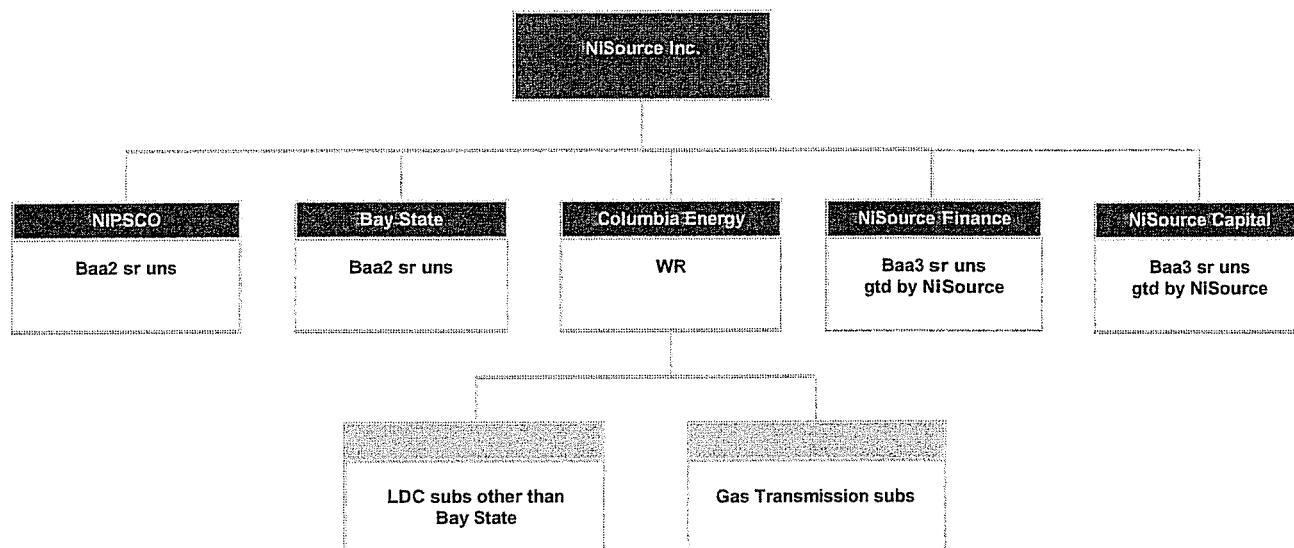
NIPSCO is the second-largest electric utility and the largest LDC in the state of Indiana. It is the legacy subsidiary of NiSource, a holding company formerly known as NIPSCO Industries, Inc. NIPSCO was the primary subsidiary of NIPSCO Industries, which acquired Bay State in 1999 and other utilities outside its legacy service area, and invested in cogeneration and other unregulated businesses, substantially all which have since been divested. In November 2000, NiSource completed an \$8 billion hostile takeover of The Columbia Energy Group (not rated), a larger, diversified gas company. The leverage associated with the transaction led to a downgrade of NiSource and its subsidiaries' ratings in 2002. NIPSCO's rating fell to the current level of Baa2 from A3 senior unsecured, and Bay State's which fell to the current level of Baa2 from A2 senior unsecured.

NiSource has been financially constrained since acquiring Columbia, and consequently, has been in maintenance mode for much of this decade. The company has struggled to realize earnings growth. After considering various strategic alternatives for most of 2007, the company unveiled a five-year growth plan (Plan), which caused Moody's to change NiSource's rating outlook to negative in December 2007.



Moody's Investors Service

NiSource Inc.

Table 1**NiSource's Corporate Family and Ratings****Rating Drivers**

The negative outlook for NiSource and its subsidiaries reflects a credit profile under pressure over the near term and the potential for its credit metrics to weaken from current levels if the company fails to execute on the Plan that it announced at the end of 2007. Moody's changed NiSource's rating outlook to negative from stable because the Plan entailed a doubling of capital expenditures from recent historical levels, the resulting negative free cash flows would be mostly debt-financed, and earnings were not expected to increase meaningfully until 2011. In changing the outlook, Moody's took a longer than usual time horizon of 18 to 24 months to allow time for rate cases and pipeline projects to be completed.

Moody's Assessment of the Plan

The Plan holds a number of risks for NiSource's Baa3¹ senior unsecured ratings:

- With mature assets, NiSource is struggling to increase top-line margins, particularly because of demand erosion in its largest LDC segment. It remains to be seen whether the company will be successful in more than offsetting margin pressures with rate increases that account for roughly half of the revenue growth assumed in the Plan.
- Under the Plan, the company does not expect a meaningful increase in earnings until 2011, which increases execution risk in the interim.
- The Plan incorporates a round of rate cases that will take a few years to complete. A key rate case will be the one for NIPSCO in Indiana, which will be lengthy and could result in a rate decrease.
- Pipelines contribute about a third of revenue growth under the Plan, which assumes some prospective projects that may not go forward. Ongoing projects may produce lower-than-expected returns if they come in above budget.

¹ The Baa3 rating is implied, since the ultimate holding company is not rated.

NiSource Inc.

- The remainder of expected revenue growth may not be achieved, depending on market conditions. Anticipated sources of revenue growth include utility customer and usage growth, capacity release and off-system sales, bulk power sales, park and loan services.
- NiSource may be unsuccessful in containing what had been a steady rise in operating costs.
- The Plan anticipates capital expenditures roughly doubling from near-maintenance levels in prior years, with the resulting negative free cash flow being largely debt-financed. Continuation of the downturn in the financial markets will make debt financing more uncertain and costly. The only equity the company plans to raise is \$300 million in the master limited partnership (MLP) market through an initial public offering (IPO) of NiSource Energy Partners. The MLP market is currently not amenable to new entrants.

Since Moody's assigned the negative outlook and nearly a year into the Plan, a number of events have transpired which altogether have had a neutral credit impact so far:

- Tawney Contingency – In May 2008, the Supreme Court of Appeals of West Virginia denied the company's appeal of a \$404 million verdict in a class action lawsuit relating to a royalty dispute against NiSource's former E&P subsidiary. On October 24, 2008, the company entered into a preliminary settlement of \$339 million for its share of the litigation, subject to final approval in November 2008. Although a credit-negative event, this litigation was already incorporated in the negative outlook.
- Columbia of Pennsylvania (CPA) has a recent rate order and Columbia of Ohio (COH) has a favorable rate settlement, which are in line with Plan assumptions and help lend visibility to NiSource's future earnings.
- Bay State Gas was denied a rate increase, but the amount of that request was less significant than in the CPA and COH rate cases.
- NIPSCO's rate case has been broken out into two steps, which is somewhat credit-negative by extending the period of rate uncertainty.
- One aspect of the downturn in the financial markets that has affected NiSource specifically is the closing of the window to the MLP market. The company had hoped to raise \$300 million through the IPO of NiSource Energy Partners, but unfavorable market conditions have kept it from doing so. Instead, NiSource will be incurring higher-than-expected short-term borrowings until it is able to access the MLP market.
- Although it is still early in Plan implementation, financial performance was on track in the first two reported quarters since the change in outlook. We have yet to see the financial results of the LDCs during the 2008-2009 heating season, when most of their earnings are generated.

Debt-Financed Capital Spending, Regulatory Lag Pressure Metrics in the Near Term

For much of the last five years, NiSource's capital expenditures remained around maintenance levels in the \$500 million range, slightly above its depreciation and amortization expenses. This level of spending allowed it to stay near free cash flow neutral (before working capital changes) and to keep debt flat, while the company digested a leveraged acquisition. The Plan approximately doubles total annual capital expenditures to over \$1 billion, which includes an increase in maintenance expenditures to roughly \$700 million and about \$300 million of organic growth capital, the majority of which is slated for the company's pipeline operations. The addition of growth capital to NiSource's financial model would create a funding gap of about the same amount, which the company plans to finance with debt (except for the proposed IPO, which has not occurred). The Plan anticipates that the additional debt and the lag in related cash flows from rate increases and pipeline projects will cause NiSource's credit metrics to weaken in the 2008-2009 period before improving from rate increases and pipeline projects coming on-line.

NiSource Inc.

Regulatory Risk Key to Plan Execution

The execution risk entailed in NiSource's Plan lies largely in the round of rate cases the company has embarked on. About half of the increase in revenues forecast in the Plan is from rate increases that the company expects to obtain. The most significant rate cases on the horizon include those for its largest LDC operations in Ohio and Pennsylvania and for its electric operations at NIPSCO:

Table 2

Regulatory Risk in Plan in Key Subsidiaries			
Subsidiary Breakdown	% '07 op inc	% '07 assts	% customers
Gas Distribution:			
Bay State	4%	9%	9%
Columbia of OH	14%	12%	30%
Columbia of PA	4%	5%	11%
Columbia of KY	2%	1%	4%
Columbia of MD	0%	0%	1%
Columbia of VA	5%	4%	7%
Electric & Gas:			
NIPSCO	28%	25%	38%
- Electric	27%	17%	14%
- Gas	1%	8%	24%

Source: Company

CPA has recently concluded its rate case, and COH has a settlement which is awaiting final commission approval. These rate proceedings will result in rate increases that support NiSource's overall credit profile, lift the LDC segment, whose overall returns have been flagging, and help lend clarity to NiSource's future financial performance. The Public Utilities Commission of Ohio staff recommended a rate increase of \$47 million to \$56 million of the \$79 million COH requested. Recommendations also included a straight-fixed-variable rate design and an infrastructure tracker, both rate mechanisms that would be credit-supporting if adopted in the final order. The Pennsylvania PUC approved a \$42 million rate increase of the \$59 million CPA had requested.

The largest looming unknown in the Plan, and a key driver for NiSource's ratings and outlook, is the ongoing NIPSCO electric base rate case. This proceeding is particularly significant to NiSource's overall credit profile, given that the electric operations are the third-largest contributor to NiSource's operating income. NIPSCO's retail electric rates have been among the highest in Indiana, presenting the potential for a reduction.

The rate case that NIPSCO filed in August 2008 varied from the company's Plan in that it proposed a two-step proceeding. The first step, which is expected to conclude in the 3Q09-1Q10 time frame, addresses the increase in cost of service since its last base rate case 20 years ago. The second step, expected to conclude by June 2010, will consider the revenue requirement on the additional rate base from its recent Sugar Creek plant acquisition. The two-step process protracts NIPSCO's regulatory risk. If NIPSCO's rates are lowered in step one, it would not be until 2011 before any additional rates from step two would be incorporated in its financial metrics.

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Indiana Utility Regulatory Commission (IURC), which regulates NIPSCO's electric and gas revenues, generally upholds supportive ratemaking practices in terms of granting trackers for environmental compliance programs, and LDC de-coupling mechanisms. Its fuel recovery is timely with quarterly true-ups. In recent years, however, NIPSCO has experienced some regulatory decisions that had negative financial implications. It remains to be seen if the recessionary economy will create a political environment which will prevent NIPSCO from obtaining the level of rate relief that it anticipates.

Management's Strategy to Remain Investment Grade

NiSource's Baa3 ratings take into account management's oft-stated intention to remain investment grade. This financial strategy has been demonstrated since the company's acquisition of Columbia (dividend cut in 2003, assets sold for debt reduction), making it less likely that the management will opt for a lower rating and a more aggressive growth profile. The company maintains that investment-grade ratings are necessary, particularly now, for favorable regulatory treatment in rate cases and access to the debt markets. Because of balance sheet constraints, NiSource has been a seller rather than a buyer (a recent exception being the acquisition of Sugar Creek generating facility). This management strategy appears to be intact with changes in senior management over the past few years, a number of which have been appointments from outside the company.

Rating Frameworks

Moody's has published rating frameworks for each of NiSource's major business lines. The rating framework for diversified gas companies is the overarching one for analyzing NiSource on a consolidated basis, but additionally, we do a sum-of-parts analysis of each of NiSource's major businesses applying the following published approaches:

- North American Diversified Natural Gas Transmission and Distribution Companies, March 2007
- North American Natural Gas Pipelines, December 2006
- North American Regulated Gas Distribution Industry (Local Gas Distribution Companies), October 2006
- Global Electric Utilities, March 2005

Scale and Diversity Reduce Risk

NiSource's scale and scope indicate superior diversity in terms of operating assets, regulatory jurisdiction, weather patterns, and markets served. In Moody's view, such diversity is a credit-positive, in that it reduces reliance on any single cash flow stream. Furthermore, NiSource has leading positions in a number of its business lines. The company is one of the largest diversified natural gas companies in the U.S., ranking as the third-largest LDC, the fourth-largest gas pipeline, and among the largest gas storage systems. NIPSCO is the second-largest electric utility (though a medium-sized relative to the industry) and the largest LDC in the state of Indiana.

NiSource, with total assets of US\$19 billion as of June 30, 2008, is one of the largest among the 19 companies that comprise the Moody's diversified gas peer group. NiSource's closest peers with comparable business mixes, with mostly LDCs and pipeline operations, are significantly smaller. For instance, Southern Union Co. and CenterPoint Energy Resources Corp., both also rated Baa3, have assets of \$8 billion and \$10 billion, respectively. NiSource's lower-than-average Baa3 rating (the peer average is Baa2) indicates significantly higher leverage, even when its lower business risk is considered.

NiSource Inc.

Table 3

NiSource relatively large and low risk vs. peers

Company	Ratings (1)	Assets (US\$B) (2)	% Op. Inc. from unregulated operations	Degree of Business Risk (3)	RGF/D
TransCanada PipeLines Ltd.	A2	\$33	Aa	Baa	13%
MDU Resources Group, Inc.	A3	\$6	B	Baa	32%
Questar Corp.	P-2	\$8	Caa	B	54%
Nicor Inc.	P-2	\$5	A	A	31%
AGL Resources Inc.	Baa1	\$8	A	A	10%
Equitable Resources, Inc.	Baa1	\$5	B	Baa	30%
Enbridge Inc.	Baa1	\$20	Aaa	Baa	9%
Keyspan Corporation	Baa1	\$19	A	Baa	10%
National Fuel Gas Company	Baa1	\$4	Ba	B	30%
Spectra Energy Capital	Baa1	\$23	Aa	Baa	14%
Vectren Utility Holdings, Inc.	Baa1	\$4	Aaa	Aa	21%
ONEOK, Inc.	Baa2	\$13	Ba	Baa	10%
CenterPoint Energy Resources Corp.	Baa3	\$10	Aa	A	17%
Atmos Energy Corporation	Baa3	\$7	Aa	A	17%
NiSource Inc.	Baa3	\$19	Aaa	A	10%
Southern Union Company	Baa3	\$8	Aa	Ba	12%
The Williams Companies, Inc.	Baa3	\$32	B	Ba	31%
Knight Inc.	Ba1	\$26	Aa	Baa	11%
El Paso Corporation	Ba3	\$25	Ba	B	17%

(1) Senior unsecured ratings for investment grade companies, corporate family ratings for non-investment grade. Issuer rating for MDU. No senior long-term ratings for Questar and Nicor.

(2) Statistics in USD; reflect Moody's standard adjustments, LTM 6/08.

(3) Assessments as published in 3/07 Moody's rating methodology for diversified gas companies or last published credit opinion.

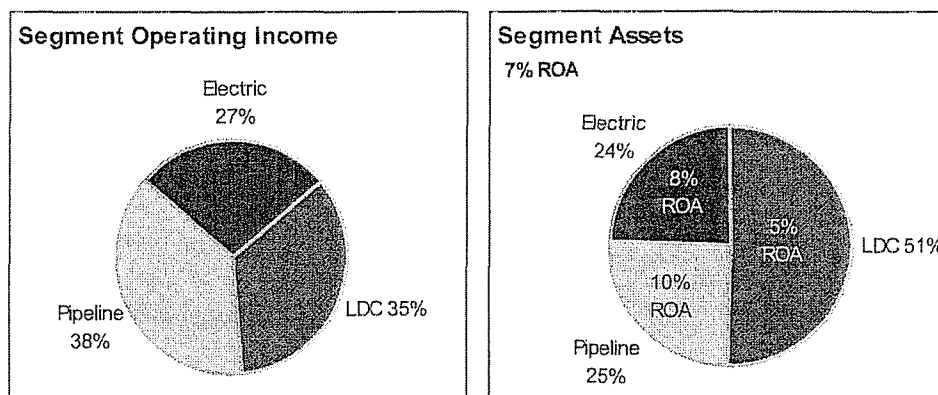
Low Business Risk vs. Peer Group

Compared with its peer group, NiSource has lower-than-average business risk with almost all of its operating income being regulated operations: LDCs regulated by the nine state commissions where they operate, two interstate gas pipelines regulated by the Federal Energy Regulatory Commission, and vertically integrated electric operations in Indiana regulated by that state commission. Rate-regulation provides a measure of predictability in financial performance, although potential changes in rate proceedings lend some uncertainty.

The company does not have significant businesses that are commodity price or volume-sensitive as does a majority of its peers, which have significant E&P and gathering and processing operations that have become prominent in recent years from rising oil and gas prices and volumes.

NiSource Inc.

Table 4: NiSource's regulated businesses: low risk though modest returns



Source: 2007 10-K

LDCs: Falling Returns Highlight Importance of Rate Case Strategy

The LDC segment is the largest and the least profitable of NiSource's business segments, and the erosion in its results has weighed on the company's consolidated financial performance. As shown in the table below, the LDC segment has experienced a steady fall in returns and profitability over the past several years, and much more so than NiSource's other segments. This decline is evidence of margin erosion from an industry-wide trend of falling per-customer usage, a result of customer conservation in response to high natural gas prices. These metrics highlight the segment's regulatory lag (COH's current rate case is the first in 14 years, 12 years for CPA) and the importance of the round of rate cases that is incorporated in the Plan.

Table 5

LDC Returns Falling					
Segment Operating Income / Assets*	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Gas Distribution Operations	8.3%	7.0%	5.3%	4.2%	4.8%
Transmission and Storage Operations	13.7%	11.9%	11.2%	10.0%	10.3%
Electric Operations	8.7%	9.9%	9.2%	9.1%	7.7%

* Source: Moodys FM, before corporate, eliminations, other

Moody's notes that the diversification of regulatory jurisdictions within NiSource's LDC portfolio is risk-reducing and a credit-positive. Its LDCs' rate designs are distinguished by long-standing trackers of various types across its jurisdictions that help make recovery of over 70% of operating and maintenance expenses more timely and certain. The utility commissions in the states in which NiSource operates have been willing to grant such stabilizing rate mechanisms.

Electric Operations: Critical Jurisdiction in Plan

NiSource's electric operations reside in NIPSCO, a combination electric and gas utility, whose electric segment accounts for almost 90% of its operating income and over 70% of its assets. NIPSCO has historically had the capacity to generate free cash flow. Its financial performance is strong and maps to A or better according to Moody's electric utility rating framework.

In addition to the risks related to the pending rate case, the credit quality of the electric operations is constrained by the concentration of its service area in northern Indiana and that state's regulatory jurisdiction. Its service area has historically been heavily dependent on the steel sector. Industrial customers accounted for 38% of NIPSCO's 2007 electric retail sales, of which about two-thirds were to steel-related industries.

NiSource Inc.

Steel industry conditions have been robust recently, but are vulnerable to a cyclical downturn in a recession. The local steel industry supplies the auto parts industry in the region, which is also vulnerable to weaker economic conditions. The weaker economy could slow the growth that NIPSCO has enjoyed in recent years and cause the electric operations to fall short of the organic growth assumed in the Plan.

Like most Midwest utilities, NIPSCO relies heavily on coal-fired generation, which accounts for about 90% of the 2,907 megawatts (MW) of generating capability it owns. The utility has also been purchasing an increasing proportion of its power from outside suppliers, which currently meet about a fifth of its energy needs. The gap between the company's owned generating capacity and customer demand has grown since the 2002 closure of its Mitchell station. The purchase of the 535 MW combined cycle gas turbine Sugar Creek plant allows NIPSCO to limit its exposure to potential disallowances of purchased power by the IURC.

NIPSCO is subject to particularly stringent environmental regulations, being located in a "non-attainment area" outside of Chicago. Heavy dependence on coal-fired generation has required significant environmental compliance expenditures historically and could potentially in the future. The company historically has had higher rates than other investor-owned utilities in the state, but this in part reflects the investments in plant and environmental facilities of relatively recent vintage. NIPSCO's exposure to coal prices is mitigated by its portfolio of coal contracts, which are reasonably diversified in terms of supply sources and contract tenor.

Pipelines: Focus of Growth

The Pipeline segment, historically a reliable free cash flow generator, figures in the Plan as the principal growth segment. It is NiSource's highest return segment, and most of the growth capital in the Plan has been allocated to it. The company will be completing two of the largest pipeline projects in many years over the next several months – the Millennium Pipeline (a joint venture with KeySpan and DTE, due to come online in the fourth quarter of 2008) and the TCO's \$167 million Eastern Market Expansion (due to come online by April 2009). These projects will add stable capacity charge revenues and eliminate a significant execution risk in the Plan. Other projects are numerous and small (\$100 million range) and generally entail low execution risk.

The primary subsidiaries making up the segment are Columbia Gas Transmission Corp. (TCO) and Columbia Gulf Transmission Co. (CGT). NiSource is a preeminent gas transmission company broadly serving the Northeast quadrant of the U.S. and operating one of the largest gas storage systems in the U.S. Based on reported segment data and the company's internal unaudited information, the segment's standalone credit profile appears strongest among NiSource's three segments according to the applicable Moody's rating frameworks.

The system's supply sources are diverse. CGT is a supply area pipeline and has access to offshore and onshore basins on the Texas and Louisiana Gulf Coast. It also has access to the growing shale production from the Barnett and Fayetteville and the Midcontinent. TCO accesses much of those same supplies through interconnects with CGT and third-party pipelines. TCO also has direct connection to production in Appalachia, which has also grown of late. TCO functions mostly as a market area pipeline that serves utilities in the north central and mid-Atlantic states. TCO and CGT's largest customers include most of their LDC affiliates (COH is their largest shipper).

Shipper contracts generate very stable revenues that are underpinned by long-term contracts with creditworthy shippers. TCO's contracts have an average remaining life of about seven years (vs. six years for the Moody's peer average). These firm contracts commit substantially all of the capacity near maximum allowed rates. CGT in its onshore segment operates in a more competitive market environment, and thus has shorter contract terms and less of its capacity committed.

Credit Metrics Weaker than Diversified Gas Peers

As mapped out in Moody's diversified gas rating framework, for a given rating, a company with a lower business risk has more debt capacity than one with higher risk. Although NiSource's consolidated credit metrics are noticeably worse than those of its peers (mapping overall to single-B levels, according to Moody's diversified gas rating framework), its more stable earnings stream allows it to support more leverage than its peers that have volatile E&P and other unregulated businesses.

NiSource Inc.

Table 6**NiSource: Weaker Credit Metrics**

Company	Ratings	EBIT/Int	Debt/Capital (excl. Gdwl)	RGF/D	ROE
CenterPoint Energy Resources Corp.	Baa3	3.1x	59%	17%	9%
Atmos Energy Corporation	Baa3	2.8x	57%	17%	8%
Southern Union Company	Baa3	2.4x	59%	12%	10%
The Williams Companies, Inc.	Baa3	3.6x	46%	31%	17%
Baa3 3-Year Peer Average		2.5x	61%	12%	10%
NiSource Inc.	Baa3	2.1x	73%	10%	6%
El Paso Corporation	Ba3	1.9x	64%	18%	9%

(1) Senior unsecured rating for investment grade companies, corporate family ratings for non-investment grade.

(2) Statistics reflect Moody's standard adjustments, LTM 6/08

NiSource's EBIT/interest in the low 2x range is slightly below the historical average for Baa3-rated diversified gas peers, and is close to those whose core businesses are regulated gas transmission and distribution (e.g., Atmos Energy Corporation, CenterPoint Energy Resources Corp., Southern Union Co., The Williams Companies, Inc.). NiSource's debt/book capitalization (excluding goodwill) at 73% is high and well above the historical peer average of roughly 60%, when fully adjusted according to Moody's standard adjustments.

Opco Ratings Reflect Implicit Burden of Parent Debt

NiSource Inc., the ultimate parent company, is a non-operating holding company with no debt of its own but it guarantees the debt of its two finance vehicles, NiSource Finance and NiSource Capital. Since the Columbia acquisition, NiSource has been migrating its debt financing to the holding company level by refinancing operating-level debt principally at NiSource Finance. NiSource's holding-company debt still is subject to structural subordination to debt at its subsidiaries and affiliates. NiSource Finance has the largest portion (90%) of the group's over \$6 billion of consolidated long-term debt. Almost all of the remaining debt is at NiSource Capital (2%), NIPSCO (7%), and Bay State (1%).

Table 7**Debt Relatively More Concentrated at Parent**

Issuer	Holdco Debt % of	Rating	Notching from Subs
NiSource	92%	Baa3 sr uns	-1
Sempra	23%	Baa1 sr uns	-2
El Paso	53%	Ba3 CFR	-3
CenterPoint	18%	Ba1 sr uns	-1
Spectra	31%	Baa1 sr uns	-1
Williams	60%	Baa3 sr uns	+2/-1

Without imputing the debt at the parent level, the characteristics of NiSource's LDC, electric, and pipeline operations appear to indicate a Baa credit quality overall. The two rated operating companies on a standalone basis could be rated slightly higher than NIPSCO and Bay State's actual Baa2 ratings, if it were not for the substantial parent obligations they help to support. Their ratings are notched closely to the parent debt's Baa3 rating because of the centralized cash management and little ringfencing restriction against the parent upstreaming cash and potentially putting more debt at the subsidiaries. Furthermore, NiSource's operating units, being regulated, have common credit qualities, unlike some other diversified companies that own distinctively riskier businesses that are assigned lower ratings.

NiSource Inc.

Liquidity Position

NiSource's liquidity position is adequate, though less robust than before, as the company proceeds on a reinvestment cycle that will put it in a negative free cash flow position for an extended period at a time when the ability to tap the financial markets is extraordinarily uncertain.

The company's large LDC operations make its cash flows and working capital requirements seasonal. Almost half the annual cash flows are generated at the December-quarter peak; the September-quarter low accounting for a fraction of that. The amplitude of the swing depends on the level of natural gas prices. The company has the capacity to be self-funding, before taking into account changes in working capital. Its run-rate funds flow from operations is roughly \$900 million, which about covers its maintenance-level capital expenditures in the \$700 million range and a dividend in the mid \$200 million range. The Plan calls for over \$1 billion in annual total capital expenditures, which would result in at least \$300 million of negative cash flow before working capital changes, the biggest variable.

NiSource has a central money pool arrangement by which NiSource Finance Corp. issues debt in the capital markets and downstreams the proceeds to the various affiliates as required.

The primary source of NiSource's alternate liquidity is NiSource Finance's drawn \$1.5 billion committed revolver due on July 7, 2011. NiSource has a Prime-3 CP rating but has not issued CP in some time. This base facility does not require the company to represent and warrant as to a general financial material adverse change (MAC) at each borrowing; however, it does require representations regarding litigation, ERISA, and environmental issues. It allows for same-day funding. The sole financial covenant is a debt-to-capitalization ratio of 70%. The company has sufficient headroom under this covenant calculation at 56.8% as of December 31, 2007, around the last seasonal peak.

NiSource Finance also has in place a \$500 million six-month facility expiring on March 23, 2009, as additional liquidity insurance should the Tawney contingency materialize. Provisions of this facility are essentially identical to those of the base facility.

Moody's satisfactory assessment of NiSource's near-term liquidity is subject to its renewing its receivables sales programs at COH, expiring on June 26, 2009, and at NIPSCO, expiring on December 19, 2008. Both programs have been in place for years and are rolled over annually. Both programs contain general MAC clauses and require representations regarding litigation and ERISA. NIPSCO's program has a rating trigger which would prevent the sale of additional receivables if NIPSCO's senior unsecured rating were to drop below investment grade at either Moody's or S&P. The maximum amount of receivables eligible for sale under the NIPSCO program is \$200 million. At COH, the limit varies seasonally between \$100 million and \$350 million (with the highest limit occurring during the winter months).

NiSource faces some financing risk on the horizon. Although the company has no scheduled debt maturities left for the rest of 2008, NiSource Finance has sizable debt maturities over the next two years (\$450 million of floating-rate notes on November 23, 2009; \$1 billion due on November 15, 2010). Additionally, there are small medium-term notes due during 2009: \$1 million due on June 8, 2009 at NIPSCO and \$10 million due on April 17, 2009 at NiSource Capital Markets. Furthermore, NiSource will need to permanently finance the Tawney obligation. Moody's will closely monitor NiSource's success in meeting its external financing requirements, particularly while the financial markets remain unfavorable.

NiSource Inc.

Moody's Related Research

Industry Outlooks

- U.S. Investor-Owned Electric Utilities, October 2008 (111891)
- North American Natural Gas Transmission & Distribution: Six-Month Update, September 2008 (111486)

Special Comments

- Pipelines Manage Risks Amid Building Boom, September 2008 (111220)
- Gas Distribution Companies See Late Payments Rise, But Liquidity Holds Up, August 2008 (110376)

Rating Methodologies

- North American Diversified Natural Gas Transmission and Distribution Companies, March 2007 (102513)
- North American Natural Gas Pipelines, December 2006 (101229)
- Midstream Energy Companies & Partnerships, September 2007 (104936)
- North American Regulated Gas Distribution Industry (Local Gas Distribution Companies), October 2006 (99282)
- Global Regulated Electric Utilities, March 2005 (91730)

Credit Opinions

- NiSource, Inc., October 2008
- Northern Indiana Public Service Company, July 2008
- Bay State Gas Company, July 2008

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Report number 112147

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